

International Tax Workshop



These slides were presented at the U.S. Embassy in Tokyo by an IRS Tax Attaché on Thursday, March 14, 2013.
For more information, visit www.irs.gov

Important Note

- This document and all information provided by the IRS Office in the U.S. and Overseas Embassies Pertain only to Federal Taxes.
 - Does not apply to State Taxes
 - See your Home state for more information.

Who Must File

- U.S. citizens file Form 1040
- U.S. resident aliens file Form 1040
 - Green Card Holders
 - Substantial Presence Test
- NRA files Form 1040-NR

Exemption and Deduction Table

•	PERSONAL	S/D	S/D	S/D	S/D
• YEAR	EXEMPTION	SINGLE	M-JOINT	M-SEPAR	HH
• 2003	\$3,050	\$4,750	\$9,500	\$4,750	\$7,000
• 2004	\$3,100	\$4,850	\$9,700	\$4,850	\$7,150
• 2005	\$3,200	\$5,000	\$10,000	\$5,000	\$7,300
• 2006	\$3,300	\$5,150	\$10,300	\$5,150	\$7,550
• 2007	\$3,400	\$5,350	\$10,700	\$5,350	\$7,850
• 2008	\$3,500	\$5,450	\$10,900	\$5,450	\$8,000
• 2009	\$3,650	\$5,700	\$11,400	\$5,700	\$8,350
• 2010	\$3,650	\$5,700	\$11,400	\$5,700	\$8,400
• 2011	\$3,700	\$5,800	\$11,600	\$5,800	\$8,500
• 2012	\$3,800	\$5,950	\$11,900	\$5,950	\$8,700

Topics important to Expatriates

- Foreign Earned Income Exclusion (FEIE)
- Foreign Tax Credit (FTC)
- Foreign Bank Account Reporting (FBAR) requirement
- Foreign Financial Asset Reporting requirement

Foreign Earned Income Exclusion

- U.S. Citizen or U.S. Resident Alien
- Foreign Earned Income
- Tax Home in Foreign Country
- Must Meet Either:
 - A. Bona fide Residence Test, or
 - B. Physical Presence Test

Maximum Exclusion Amount

- Husband and wife could exclude up to \$95,100 each (if both qualify) for total exclusion of \$190,200 for 2012
- Exclusion/Deduction for qualifying foreign housing expenses
- Income above excluded amount taxed at higher rate
- Use Form 2555 or 2555-EZ

Foreign Tax Credit

- Must be:
 - Income tax
 - Legally owed and paid
- No credit for foreign taxes on Excluded income
- Limitations apply
- Use Form 1116



Foreign Tax Credit

- Formula for Amount Not Allowed:

$$(\text{FEIE} / \text{FEI}) \times \text{Foreign Inc Tax} = \text{Not Allowed}$$

$$(\$ 95,100 / \$125,000) \times \$ 30,500 = \$ 23,200$$

- Allowable Foreign Income Tax on FEI:

$$\$ 30,500 - \$ 23,200 = \underline{\$ 7,300}$$



Foreign Bank Account Report (FBAR)

- **Form TD F 90-22.1**
 - Foreign accounts, in aggregate
 - Over \$10,000 on any day of the year
 - Filed with Treasury Dept by June 30 each year (no extensions)
 - eFile is available. Go to FinCEN website (Financial Crimes Enforcement Network)

www.FinCEN.gov



Reporting Foreign Financial Assets

- **Form 1040, Schedule B, Part III**
- **Form 8938**
 - Report Foreign Accounts & Assets
 - Threshold varies - \$200,000 if living abroad
 - Filed with Form 1040
- This requirement is part of the Foreign Account Tax Compliant Act (FATCA) which also asks foreign financial institutions report U.S. account holders to IRS.

Other Required Forms – is this you?

- **3520** – Annual Return to Report Transactions With Foreign Trusts/ Receipt of Certain Foreign Gifts
- **3520-A** – Annual Return of Foreign Trust with a U.S. Owner

Required Forms – is this you?

- **5471** – Information Return of U.S. Persons With Respect to Certain Foreign Corporations
- **5472** – Information Return of a Foreign ownership of U.S. Corporation

Important!

- **Information Reporting is the bed rock of the U.S. compliance system. Penalties for not filing a required informational return can be very severe, including criminal sanctions.**

Other Topics of Interest to Expats

1. Filing a tax return jointly with a Foreign Spouse
2. Applying for an ITIN
3. Gift Tax
4. IRA Contributions (Traditional or ROTH)

Foreign Spouse

- You may choose to file a return with a Foreign Spouse (MFJ)
- You may choose to file by yourself (MFS)
- Cannot switch from year to year once election is made – unless marital status has changed.
- Your foreign spouse must have ITIN.

How to apply for an ITIN

- Use Form W-7
- Must demonstrate the need for an ITIN
- Attach certified copy of foreign passport
- ITIN is only used for tax purpose, and nothing else.
- ITIN issued after 1-1-2013 is only valid for 5 years.

2012 Gift Tax Limits

- Annual Exclusion: \$13,000 for single filer (\$26,000 for married) for 2012
- Form 709, Gift Tax Return may be required
- Recipient need not report the gift but must report income earned by gift (interest, dividends, etc.)
- A NRA donor must pay gift tax on transfer of real and tangible property situated in U.S.

2012 Gift Tax Limits

- U.S. Citizen spouses can give each other unlimited gifts and need not file gift tax return.
- A U.S. Citizen can only gift \$139,000 to their non-U.S. spouse without paying gift tax. (\$143,000 in 2013)
- Gifts are NOT tax deductible to the donor!

Individual Retirement Accounts

- Must Have “earned” income included in taxable income. So if all income excluded as FEIE, no contribution is allowed.
- Contribution: smaller of \$5,000 or earned income (\$1,000 catch up)
- For 2013, the limit is increased to \$5,500, \$6,500 if over 50.

Individual Retirement Accounts

- Traditional:
 - Contributions may be deductible depending on income level (phased out with MAGI between \$173,000 to \$183,000 MFJ for 2012)
 - Anyone can make non-deductible contributions without income ceiling, as long as under 70 ½ and have “earned” and taxable wages.
 - Penalty if withdraw before 59 ½.

Individual Retirement Accounts

- ROTH
 - Contribution never deductible
 - Subject to income eligibility
 - ✓ MFJ - \$173,000 (phased out between \$173,000 & \$183,000 for 2012)
 - ✓ Single or HH - \$110,000 (phased out between \$110,000 & \$125,000 for 2012)
 - No age limit
- - **Not taxable when withdrawn**

For more information

Internal Revenue Service (US)

- Call International Customer Service at
(267) 941-1000 (not toll free)
Mon - Fri. 6:00 a.m.–11:00 p.m. EST
- Check www.irs.gov
Keyword: “**International**”
- Helpful publications:
54, 514, 901, 4732

IRS Office (Beijing, China)

- email irs.beijing@irs.gov

For Social Security Related Matters in Japan Contact:

Federal Benefits Unit, U.S. Embassy Tokyo

- Call 03-3224-5000 (ask for FBU)
Mon – Fri 9:00 a.m.–4:00 p.m. JST
- email: FBU.Tokyo@ssa.gov

